THE U.S.-KOREA FREE TRADE AGREEMENT: MORE AMERICAN JOBS, FASTER ECONOMIC RECOVERY THROUGH EXPORTS

President Obama today announced the successful resolution of the outstanding issues with the U.S. – Korea trade agreement, setting the stage for consideration of the agreement by Congress in the coming months. The agreement is an integral part of the President's efforts to increase opportunities for U.S. businesses, farmers and workers through improved access for their products and services in foreign markets, and supports the President's National Export Initiative goal of doubling of U.S. exports in 5 years. The agreement will promote the further integration of the U.S. and Korean economies and enhance the competitiveness of U.S. businesses in the world's 12th largest economy. The agreement is an important demonstration of the Administration's advancement of free and fair trade, and will complement the Obama Administration's efforts to expand business opportunities for the United States in Asia, including through such initiatives as the Trans Pacific Partnership.

Real Opportunities

The U.S. International Trade Commission has estimated that the tariff cuts alone in the U.S.-Korea trade agreement will increase exports of American goods by $10 billion to $11 billion. The Obama Administration is moving this agreement forward to seize the tens of thousands of American jobs supported by those exports – as well as the additional American jobs that will come from by breaking down non-tariff barriers keeping U.S. exports out of Korea, and by requiring stronger protection and enforcement of intellectual property rights in Korea. Just as importantly, the U.S.-Korea trade agreement will also open Korea's $560 billion services market to highly competitive American companies – supporting jobs for American workers in sectors ranging from delivery and telecommunications services to education and health care services.

Agreement Eliminates and Reduces Tariffs on U.S. Exports:

The Agreement would eliminate tariffs on over 95 percent of industrial and consumer goods within five years.

Autos: The United States and Korea have reached an agreement that makes more job-creating export opportunities in a more open and fair Korean market for America's auto companies and auto workers. The agreement improves market access for U.S. auto companies by addressing ways Korea's system of automotive safety standards have served as a barrier to U.S. exports. Similarly, the agreement addresses proposed Korean environmental standards that could serve as a barrier to U.S. exports – striking a balance that respects our shared desire to reduce the environmental impact of automobiles, but alleviates a real burden placed on American auto companies importing smaller volumes into Korea. Progress was made in several additional areas of automotive policy including on regulatory transparency and an acceleration of tariff reductions on electric cars that will encourage the development of green auto technologies. A special auto safeguard levels the playing field for American auto workers, ensuring that the American industry does not suffer from harmful surges in Korean auto imports due to this agreement. Further adjustments to general auto and truck tariffs will give U.S. auto companies and American workers the opportunity to increase sales in Korea before U.S. tariffs on Korean autos come down.

Manufacturing: The U.S-Korea trade agreement creates new opportunities for U.S. manufacturers seeking to export to Korea in two ways: first, it eliminates tariffs, or duties, charged when U.S. exports come into Korea; and it addresses non-tariff barriers to U.S. exports – whether by eliminating barriers that are in place today, or by establishing a framework to prevent non-tariff barriers from arising in the future. Under the agreement, U.S. exports of aerospace, automotive, consumer goods, electrical/electronic goods, metals, scientific equipment, and shipping and transportation equipment will gain duty-free access to the Korean market. Beyond tariffs, the agreement establishes strong new rules on how Korea will develop regulations applied to U.S. exports, and contains state-of-the-art

protections on intellectual property rights (IPRs). Strong protection for intellectual property is critically important for U.S. industry's knowledge-based manufactured goods.

Services: Korea has agreed to match the high level of openness provided by the United States in a host of services sectors, ranging from energy and environmental services to financial services and distribution. The agreement's provisions on cross-border services, telecommunications, and electronic commerce offer particular advantages to the information and communications technology service sector – an area where the United States excels – benefitting small- and medium-sized American enterprises without the resources to establish an office in every market they serve. The agreement also discourages Korea from setting technology standards or other requirements in a way that would give domestic producers an advantage over American service suppliers. And the agreement addresses all service sectors in the Korean market, and all modes of supply, and will apply to new and innovative services that may develop as markets evolve.

Agricultural Products: The United States is already Korea's top supplier of agriculture products, including of a broad variety of farm products such as almonds, fresh cherries, hides and skins and corn. The U.S.-Korea trade agreement creates new opportunities for U.S. farmers, ranchers and food processors seeking to export to Korea's 49 million consumers, giving American agricultural producers more market access in two ways – by getting rid of tariffs charged when U.S. exports come into Korea, and by laying out a framework to tackle other barriers to U.S. exports –even those that might arise in the future. American beef volumes have increased by more than 120 percent in just a few years under the existing protocol – helping producers to regain much of the market share they lost earlier. Tariff eliminations on Korea's existing 40 percent tariff will further boost beef exports, saving an estimated $1,300 per ton of beef imported to Korea – savings that would total $90 million annually for U.S. beef producers at current sales levels.

Investment: The U.S.-Korea trade agreement increases investment opportunities for U.S. companies in Korea by providing them access to the market, strong investor protections, and a way for investors to enforce their rights. The agreement does not provide Korean investors in the United States any more investment protections than U.S. law gives American investors here, and it ensures that the U.S. government and our state and local governments can continue to regulate in the public interest, including protecting public health, public safety, and the environment.

Financial Services: The financial services chapter in the U.S.-Korea agreement provides significantly improved market access into Korea for American financial services firms – supplementing and modifying the agreement's rules on investment and services to allow American companies to provide financial services in the Korean market. At the same time, the agreement preserves the right of U.S. financial regulators to take action to ensure the integrity and stability of financial markets or address a financial crisis. Under the agreement, Korea also commits to treat U.S. financial institutions comparably to their competitors in the Korean market.

Government Procurement: The U.S.-Korea agreement expands U.S. firms' access to the $100 billion Korean government procurement market, creating new opportunities for exporters, and ensuring that U.S. firms will get to bid on contracts on a level playing field with Korean firms. At the same time, the agreement's government procurement rules ensure that certain American business sectors – such as small businesses or textile companies bidding on Department of Defense procurement – do not face foreign competition for key government contracts here at home. The agreement's procurement obligations also maintain American environmental and labor safeguards.

Labor Rights: The agreement sets high standards for protection of workers' rights in trade agreements – including obligations for Korea to respect fundamental labor rights, not to weaken the laws that reflect those rights in any way, and to effectively enforce labor laws designed to ensure a level playing field for American workers to compete. The agreement contains groundbreaking labor elements that were first outlined on May 10, 2007, in a bipartisan, Congressionally-led initiative to incorporate high labor

standards into America's trade agreements. The Korean government, which has already demonstrated a significant commitment to labor rights, will be held to the same level of accountability for meeting labor commitments as it is for meeting other commitments in the agreement.

Environmental Commitments: The Environment Chapter of the U.S.-Korea agreement contains groundbreaking environmental elements that were first outlined in the bipartisan, Congressionally-led May 10 initiative to incorporate high environmental standards into America's trade agreements. Under the agreement, the Korean government – which has already demonstrated a significant commitment to environmental protections – will be held to the same level of accountability for meeting environmental commitments as it is for meeting other commitments in the agreement.

INCREASING U.S. AUTO EXPORTS AND GROWING U.S. AUTO JOBS THROUGH THE U.S.-KOREA TRADE AGREEMENT

President Obama recognized that when it came to autos, the 2007 U.S.-Korea trade agreement did not go far enough to provide new market access to U.S. auto companies and to level the playing field for U.S. auto manufacturers and workers. The supplemental agreement announced today makes a number of important improvements:

- To deal with the large disparity between Korean auto sales to the U.S. and American car sales in Korea, U.S. auto companies and American auto workers now have provisions that give them the opportunity to increase sales to Korea before U.S. tariffs on Korean autos come down.
- To increase overall sales in Korea of more affordable American vehicles, and support more auto jobs here at home, we agreed to eliminate non-tariff barriers that severely restricted American automakers' access to the Korean market and raised the cost of producing vehicles for sale in that market.
- To level the playing field for America's auto industry and workers, we strengthened enforcement and protections from sudden harmful import surges.

INCREASING ACCESS TO KOREA'S AUTO MARKET TO EXPAND U.S. EXPORTS AND SUPPORT JOBS HERE AT HOME

Automotive Safety Standards: Safety standards have effectively operated as a non-tariff barrier to U.S. auto exports. The 2010 supplemental agreement announced today allows for 25,000 cars per U.S. automaker – or almost four times the number allowed in the 2007 agreement -- to be imported into Korea provided they meet U.S. federal safety standards, which are among the most stringent in the world.

Automotive Environmental Standards: To avoid unfair burdens on automakers while maintaining high standards for environmental protection, major trading nations provide reasonable flexibility on environmental standards for small-volume vehicle importers. Under the 2010 supplemental agreement, all U.S. autos will be considered compliant with new Korean environmental standards on fuel economy and greenhouse gas emissions, developed since the 2007 agreement, if they achieve 119 percent of the targets in these regulations. This provision helps American automakers sell their cars affordably in Korea without undermining Korea's environmental objectives.

Taxes: In the 2007 agreement, Korea committed to reduce tax rates for American cars and to streamline current taxes based on engine size, which have tended to raise the cost of the typically larger size of American vehicles sold in Korea. Under the 2010 supplemental agreement, Korea has agreed to additional transparency in this area.

Transparency: The 2007 agreement prohibits Korea from adopting new automotive regulations that create unnecessary barriers to trade, and establishes an early warning system for potential trade barriers. The 2010 supplemental agreement makes two important additions for significant regulations: creating a 12-month period between the time a final regulation is issued and the time auto companies must comply with it, giving companies sufficient time to adjust; and requiring Korea to develop a new review system within 24 months of entry into force to make sure that existing auto regulations accomplish their objectives in the least burdensome manner possible.

LEVELING THE PLAYING FIELD BY GIVING U.S. AUTOMAKERS AND WORKERS THE OPPORTUNITY TO TAKE ADVANTAGE OF INCREASED ACCESS TO KOREA'S MARKET

Car Tariff Elimination: The 2007 agreement would have immediately eliminated U.S. tariffs on an estimated 90 percent of Korea's auto exports, with remaining tariffs phased out by the third year of implementation. The 2010 supplemental agreement keeps the 2.5 percent U.S. tariff in place until the fifth year. At the same time, Korea will immediately cut its tariff on U.S. auto imports in half (from 8 percent to 4 percent), and fully eliminate that tariff in the fifth year.

Truck Tariff Elimination: The 2007 agreement would have required the United States to start reducing its tariff on Korean trucks immediately and phase it out by the agreement's tenth year. The 2010 supplemental agreement allows the United States to maintain its 25 percent truck tariff until the eighth year and then phase it out by the tenth year – but holds Korea to its original commitment to eliminate its 10 percent tariff on U.S. trucks immediately.

Tariffs on Electric Cars: In the 2007 agreement, the United States and Korea would have eliminated tariffs on electric cars and plug-in hybrids by the tenth year of implementation. Under the 2010 supplemental agreement, Korea will immediately reduce its electric car tariffs from 8 percent to 4 percent, and both countries will then phase out their tariffs by the fifth year. This is a concrete step toward achieving President Obama's goal of supporting America's green technologies.

MORE SAFEGUARDS FOR AMERICA'S AUTO INDUSTRY SUSTAIN JOBS HERE AT HOME

Special Motor Vehicle Safeguard: The 2007 agreement contained no safeguard specific to the U.S. auto industry. Under the 2010 supplemental agreement, Korea has committed to add a special safeguard for motor vehicles to ensure that the American auto industry does not suffer from any harmful surges in Korean auto imports due to this trade agreement.

Additional rules strengthen this auto safeguard. In the 2007 agreement, the general safeguard protections against harmful product surges ended in the agreement's tenth year. Under the 2010 supplemental agreement, the special auto safeguard is available for 10 years beyond the full elimination of tariffs for each Korean auto product. Under this motor vehicle safeguard, the U.S. government is not required to offer Korea tariff reductions or other compensation – generally required when a safeguard is applied – for up to two years after this particular safeguard is applied. The special motor vehicle safeguard can be applied more than once per particular auto product if more than one surge causes serious damage to U.S. production of that product. The higher tariffs of the special motor vehicle safeguard can be applied to a particular product for as long as four years, instead of three years as in the agreement's general safeguard. There is no requirement for the U.S. to progressively re-lower tariffs while the special motor vehicle safeguard is applied. Fewer procedural steps are required to speed up the application of the safeguard when workers need faster relief.

Enforcement: The 2007 agreement creates a tough remedy for the United States to re-impose as much as $200 million in U.S. tariffs (i.e., "snapping back" to pre-agreement levels) on Korean passenger cars if U.S. auto business in Korea is materially affected by Korean violations of the agreement. The 2010 supplemental agreement substantially increases Korea's obligations in a number of areas subject to this strong enforcement mechanism.

FOR IMMEDIATE RELEASE
January 20, 2011

The Republic of Korea Government's Response to North Korea's Proposal for Military Talks

(Unofficial Translation)

- On January 10, the Government of the Republic of Korea, via the Ministry of Unification spokesperson's comment, proposed a dialogue between South and North Korean authorities for, first of all, North Korea's taking responsible measures for the Cheonan torpedo and the Yeonpyong Island shelling attacks and credibly promising for no further provocations; and second, confirmation of North Korea's sincerity toward denuclearization.

- In regard to ROK's proposal, North Korea's Kim Yong-Chun, Chief of the General Staff of the Korean People's Army, responded to the Republic of Korea's Defense Minister, Kim Kwan-Jin, by telegram this morning (January 20), suggesting the two sides hold high-level military talks, as the agendas proposed by the ROK for the inter-Korea dialogue are military in nature and thus require participation of the military authorities on both sides. The agenda proposed by the North for the high-level military talks is "to express views on the Cheonan incident and the artillery combat in the Yeonpyong Island and to ease military tensions on the Korean Peninsula."

- The Government of the Republic of Korea has consistently maintained that North Korea must first take responsible measures for the two attacks and promise credibly to prevent further provocations; and that a dialogue between the authorities of the North and South is necessary to confirm North Korea's sincerity toward denuclearization.

- According to such position, the Republic of Korea will proceed to have high-level military talks with North Korea; the agenda of the talks will be North Korea's taking responsible measures regarding the Cheonan and Yeonpyeong attacks and its making a definite promise to prevent additional provocations. With this in mind, the Republic of Korea plans to propose to the North detailed logistics concerning the talks, including a preliminary meeting.

- ROK will also later propose separate high-level talks with the North Korean authority, as the Government of ROK believes that inter-Korean talks about the nuclear issue is absolutely necessary to confirm North Korea's sincerity toward denuclearization.

- The Ministry of Unification will discuss further related details with relevant agencies of the Government of the Republic of Korea. /end/

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Expanding U.S. Trade with Korea – An Easy Economic Stimulus

"This agreement will benefit the people of both our countries, boosting commerce, growing our economies, creating good-paying jobs....South Korea is already America's seventh largest trading partner, with two-way trade and goods alone reaching nearly $70 billion last year. And we believe this is only the beginning of our shared economic potential. As President Obama said at the G20 recently, we are committed to getting the free trade agreement passed."

Secretary of State Hillary Clinton
July 21, 2010

Enhancing the longstanding partnership between the United States and the Republic of Korea by enacting the KORUS FTA will bring important economic benefits and opportunities to U.S. businesses, farmers, and workers by immediately opening access for U.S. goods and services in Korea—one of the world's largest and most dynamic economies.

By securing a more open and competitive Korean market, the FTA will boost U.S. exports to and investment in Korea—generating new jobs and economic growth for both countries.

The Importance of Trade to the U.S. Economy

- More than 57 million American jobs are directly supported by international trade.
- Exports represent 13% of U.S. GDP, and exports have been the single largest contributor to economic growth, generating 48% of GDP growth from April 2007 to March 2008.
- 95% of the world's consumers live outside the United States.

Trade Between U.S. and Korea

- Korea = 7th largest U.S. trading partner
  = 5th largest market for U.S. agricultural goods
  = 2nd largest market for U.S. services in Asia
  = 10th largest market for U.S. information technology products

Overall Benefits of the KORUS FTA (USITC, 2007)

- U.S. GDP growth: $10.1~11.9 billion
- U.S. Merchandise Exports increase: $9.7~10.9 billion

Cost of Inaction

- A recent U.S. Chamber of Commerce study found that America could suffer a net loss of more than **345,017 jobs, $20.3 billion in lost export sales** and **U.S. national output** failing to grow **$40.4 billion**, if it fails to implement the KORUS FTA while the EU and Canada move forward to implement FTAs with Korea.

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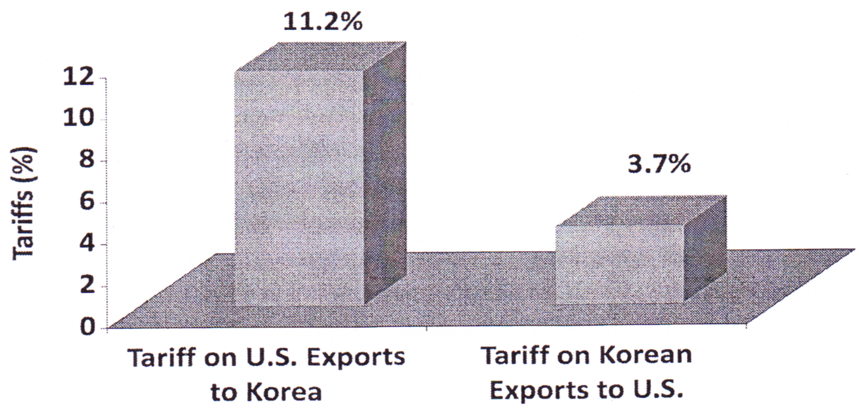
Tariff Elimination by the KORUS FTA

- U.S. exports to Korea face an average applied tariff of 11.2 percent, while the equivalent U.S. tariff on Korean exports is 3.7 percent.

Tariffs on U.S. and Korean Exports



Source: CRS Report for Congress, "The Proposed South Korea-U.S. Free Trade Agreement (KORUS FTA)," July 28, 2007

- With approval of the KORUS FTA, nearly 95 percent of bilateral trade in consumer and industrial products will become duty-free within three years—and almost all other tariffs will be eliminated within 10 years.

- The FTA creates significant new access in Korea for U.S. agricultural products, which now face an average applied tariff of 52 percent. Under the FTA, tariffs will be removed immediately on more than half of current U.S. farm exports to Korea—a value of $1.9 billion.

KORUS FTA will **give U.S. businesses, workers and farmers an advantage over other global competitors in Korea's growing market.**

- Korea has concluded an **FTA with the European Union** – a major agreement that could give significant advantages in the Korean market to many European service and manufacturing companies at the expense of American companies waiting to benefit from the KORUS FTA.

- **Trilateral talks between Korea, Japan and China** are moving ahead with the goal of establishing a massive regional market.

KORUS FTA will ensure that the United States not only remains competitive in the Korean market, but remains a strong competitor throughout Asia.

koreauspartnership.org

Talking Points on Kaesong Issues, February 22, 2011

Contention #1: Products, including component parts and assembled goods, made in the Kaesong Industrial Complex (KIC) can be imported to the United States

- Under U.S. law, which maintains firm sanctions against all North Korean products, no product from North Korea can enter the U.S. (Treasury's Office of Foreign Assets Control regulation). **The KORUS FTA does not change this law or conflict with U.S. sanctions against North Korea.**
  - The FTA would not change U.S. law that mandates that no product or component of a product, sold in the U.S. can trace its origin to North Korea.
- Products made in the KIC are destined for South Korea's domestic market or markets in Asia and Eastern Europe. **Korean companies that do business in the KIC purposefully segregate all products with any connection to the complex and do not allow them to be shipped to the U.S.**
  - No South Korean company would risk losing access to the American market for violating the U.S. embargo on North Korea.
- This is true of products that were fully manufactured in North Korea AND South Korean products which contain components manufactured in North Korea.
- U.S. customs authorities, not South Korean customs agents, are responsible for the verification of the origin of products to be shipped to the U.S. **The KORUS FTA includes the most effective customs enforcement measures the U.S. has ever agreed to in an FTA**, including unannounced visits to Korean producers and denying entry for non-compliant goods.
- The KORUS FTA applies to South Korea's territory and excludes the KIC and any territory controlled by North Korea. By stating that "A natural person who is domiciled [in North Korea] shall not be entitled to benefits under this agreement" The agreement makes it clear that no North Korean shall benefit, either personally or through their control of a corporation or their manufacturing of a good.

Contention #2: The KORUS FTA provides an opening for products from the KIC to gain duty-free access to the U.S. without approval by the U.S. Congress

- Annex 22-B of the agreement provides a future opportunity to discuss granting KIC products access to the U.S. IF AND ONLY IF, both the U.S. government and the South Korean government agree.

- USTR says Congress would have to pass legislation allowing Kaesong goods to qualify for preferential tariff treatment through the regular legislative process and the President would need to sign this legislation into law. No unilateral action by South Korea or by the Executive Branch could qualify goods assembled in the KIC for the benefits of the FTA.

- Before allowing products from the KIC into the U.S. would even be considered, the FTA insists that certain stringent criteria must be met, including, but not limited to:

  - Progress towards denuclearization of the Korean Peninsula;

  - The impact of the area on intra-Korean relations;

  - The environmental standards, labor standards and practices, wage practices and business and management practices prevailing in the area with due reference to the situation prevailing elsewhere in the local economy AND the relevant international norms.

Contention #3: The Ambassador's remarks indicate that the ratification of KORUS is an opening for KIC products to be allowed into the U.S. duty-free

- The quotation attributed to the Korean Ambassador claims that he said, "The planned ratification of the South Korea-U.S. free trade agreement will pave the way for the export of products built in Kaesong to the U.S. market."

- Ambassador Han actually told a group of businessmen at the KIC "**If the issues surrounding the Korean Peninsula are resolved accordingly, then** it will pave the way to export the goods produced in KIC to the US without tariffs" Unfortunately, this quotation was taken out of context. It was made in 2007, well before he became Ambassador to the U.S. and leaves out the conditional clause which preceded it.

- This statement merely reiterated the relevant provisions of the FTA, as explained above.

US-Korea Free Trade Agreement: Kaesong Industrial Complex (KIC)

The United States-Korea Free Trade Agreement (KORUS FTA) supports and reinforces the current embargo against North Korea. It includes strong protections against allowing imports from North Korea that both sides have committed to enforcing vigorously.

What is KIC?

- The Kaesŏng Industrial Complex is a collaborative economic development zone between South and North Korea, located in North Korea, six miles north of the DMZ. Although it is located in North Korea and employs an estimated 42,000 North Korean workers, the complex was developed by the South Korean businesses.

- The KIC is a measured approach to guide North Korea to liberalize and reform its economy. The KIC is also strategically located to block a potential North Korean land invasion through the closest geographic approach to Seoul.

Products Made in KIC are not imported to the United States

- Currently, the U.S. tightly enforces the embargo, including on all KIC goods, intermediate and otherwise, goods from Kaesong are not imported into the U.S. Korean companies that do business in the KIC purposefully isolate all KIC products and do not allow them to be shipped to the U.S. as they risk losing access to the American market if they violate the U.S. embargo on North Korea. The approval of the FTA won't change that.

- The KORUS FTA will introduce strong customs enforcement measures prevent any fraudulent declaration of origin, including unannounced visits to Korean textile and apparel producers and denying entry for effective goods.

Incorporating KIC into KORUS Would Require Separate Approval by Congress

- The KORUS FTA does not grant products made in the KIC any access to the U.S. The agreement provides for a future opportunity to expand the FTA to include products made in the KIC if, and only if, both the U.S. and South Korean legislatures consent. The U.S. took a similar approach in the Middle East by allowing products made in Qualifying Industrial Zones (QIZs) in Egypt and Jordan access to the U.S. market. It was envisioned in the U.S.-Israel FTA of 1985 and approved by U.S. Congress in 1996.

- Under the KORUS FTA, stringent criteria must be met before products from the KIC may be considered for market access:

  > "including but not limited to: progress toward the denuclearization of the Korean Peninsula; the impact of the outward processing zones on intra-Korean relations; and the environmental standards, labor standards and practices, wage practices and business and management practices prevailing in the outward processing zone, with due reference to the situation prevailing elsewhere in the local economy and the relevant international norms."

- The agreement requires Congress to approve "any amendments to the Agreement with respect to outward processing zones [Kaesong]," just as Congress was required to do to extend the Israel FTA to Palestinian zones.

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